



Alternative Investment Management (AIM) Program

AIM Annual Plan: FY 2005/2006

November 14, 2005



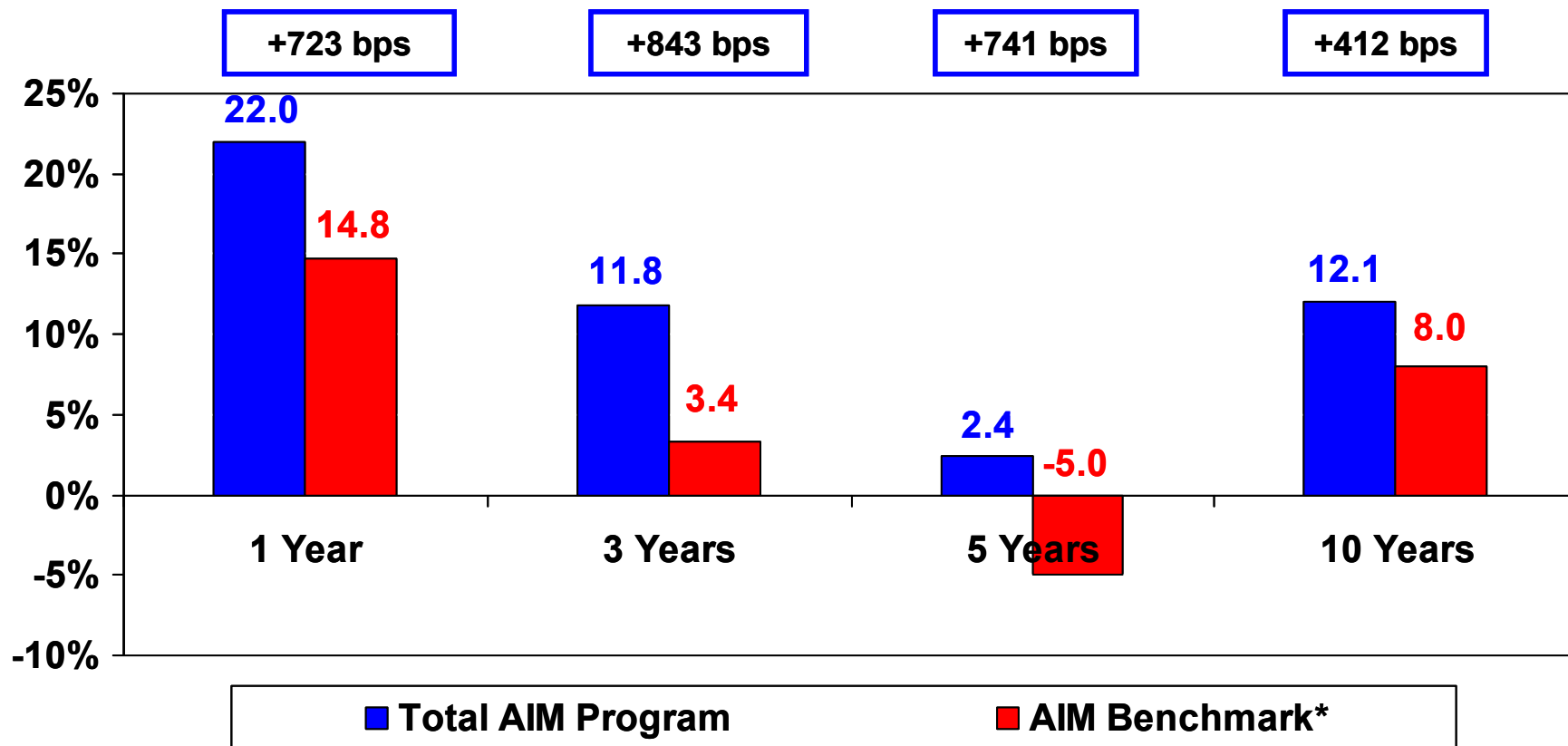
AIM Program Overview

- First investment made in 1990
 - \$25.5 billion in current AIM commitments* as of June 30, 2005
 - Target allocation to AIM is 6%, measured by market value (current target is ~\$11.0 billion)
 - Current market value of \$9.6 billion is approximately 5% of total CalPERS assets
- Key strategic objectives of AIM Program have been met
 - Enhance System's risk adjusted return
 - AIM's performance is currently meeting or exceeding expectations
 - Mitigate overall risk through diversification
 - AIM provides diversification with reduced correlation to other asset classes
- Recently completed Strategic Review lays framework for moving Program forward

* Includes funded and unfunded commitment; unfunded commitment stays fully invested in other CalPERS asset classes until the capital is drawn down and invested by our private equity partners. The unfunded commitments are legally binding agreements.

AIM Relative Performance

- AIM Program continues to provide solid out-performance



*AIM Benchmark is the blended Custom Young Fund Universe/Wilshire 2500 + 500 bps

Returns as of June 30, 2005

All returns are annualized returns unless otherwise indicated

Data Source for AIM Performance Information is State Street Bank/Private Edge Group – CFA Institute Compliant

Data Source for AIM Benchmark is Wilshire

AIM Performance by Investment Stage

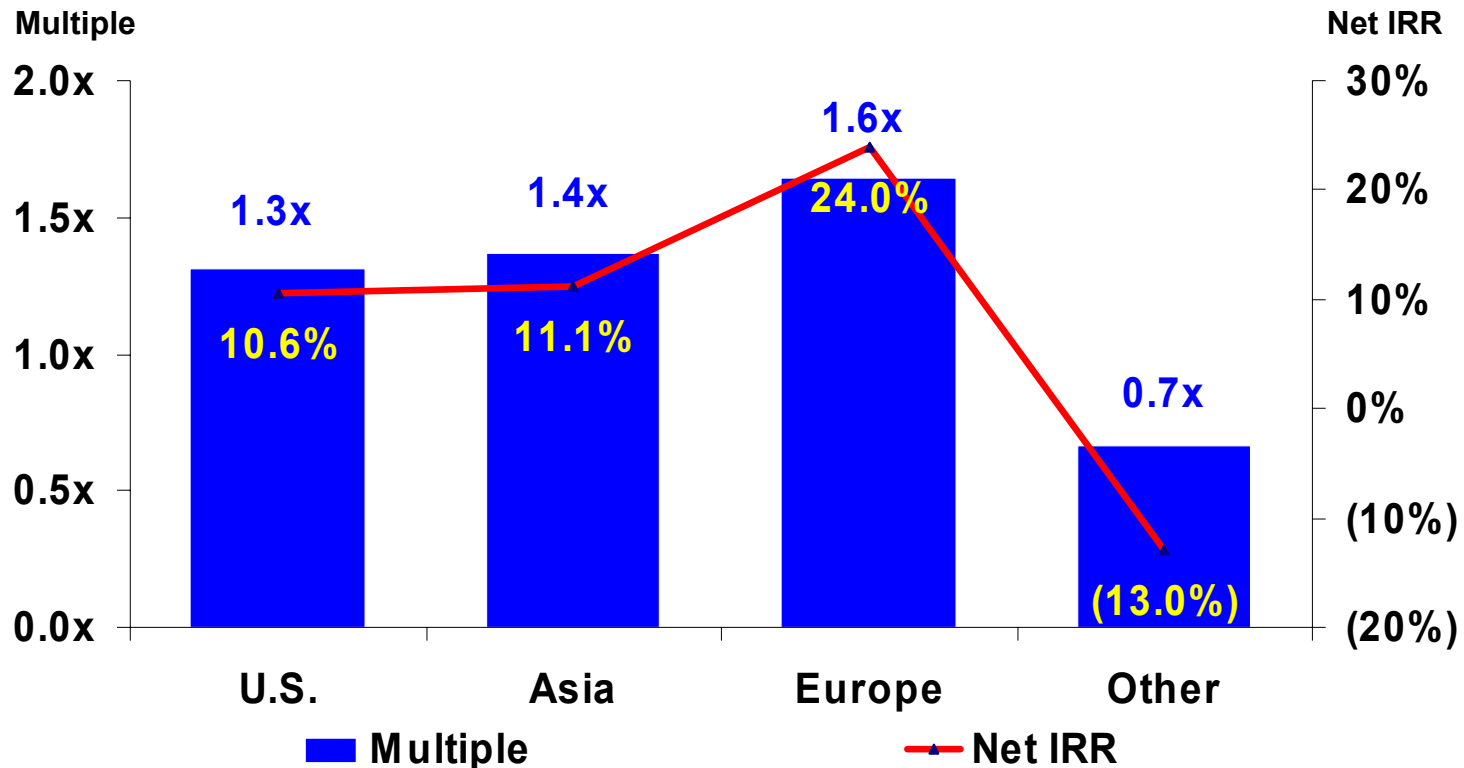
- Younger investments have exhibited strong early returns
 - Recent strong market conditions have positively impacted performance and lessened the j-curve effect
 - As investments mature returns typically increase
- Risk is mitigated through “stage” diversification

As of 6/30/05 (\$ in millions)

Investment Stage	Term	% of AIM Commitments	Net IRR
Investment Period	0 - 6 years	66%	7.3%
Distribution Period	6 - 10 years	20%	9.8%
Liquidation Period	10+ years	7%	15.6%
Exited Investments	Fully liquidated	7%	19.1%
Total		100%	11.5%

AIM Performance by Geography

- Europe and Asia returns are outpacing other geographies
 - European and Asian based investments have generated 24% of the Program's total returns while comprising 14% of commitments
- Risk is mitigated through “geographic” diversification



Returns as of June 30, 2005

Other consists of Argentina, South Africa, and Israel and represents less than 1% of portfolio. Negative performance largely driven by Argentina

Data Source for Performance Information is State Street Bank/Private Edge Group – CFA Institute Compliant

AIM Performance by Investment Style

- Three investment styles are outpacing the others
 - 52% of commitments have generated over 80% of the Program's total returns
 - Recent sub-asset class performance may not be indicative of future results
- Risk is mitigated through “style” diversification

As of 6/30/05 (\$ in millions)

Investment Style	Wtd. Age Years*	Total Committed**	Total Contributed	Total Value	Net Multiple	Net IRR (cum.)	Net IRR (1 yr.)
Distressed Securities	3.1	\$ 1,261	\$ 768	\$ 1,198	1.6x	23.0%	30.8%
Secondary Interests	5.4	837	659	914	1.4x	18.5%	14.3%
Corporate Restructuring	4.3	12,792	7,417	11,180	1.5x	15.4%	36.0%
Expansion Capital	5.5	4,991	3,557	4,290	1.2x	7.9%	13.6%
Special Situations	4.2	1,061	681	792	1.2x	5.7%	15.8%
Venture Capital	4.7	5,452	3,500	3,665	1.0x	2.6%	-0.1%
Mezzanine Debt	5.2	837	590	603	1.0x	1.5%	12.4%
Total	4.5	\$ 27,231	\$ 17,172	\$ 22,642	1.3x	11.5%	22.0%

* Weighted average age based on commitments to active and authorized investments

** Includes active, authorized and exited commitments

Performance of Select Special Programs

Performance in each Program is too early to be meaningful

As of 6/30/05 (\$ in millions)

Investment Program	Total Committed	Total Contributed	Total Value	Net Multiple	Net IRR (cum.)	Net IRR (1 yr.)
California Initiative	\$ 480	\$ 232	\$ 217	0.9x	-5.6%	7.9%
Clean Technology*	130	-	-	NM	NM	NM
Total	\$ 610	\$ 232	\$ 217	NM	NM	NM

- **California Initiative Program**

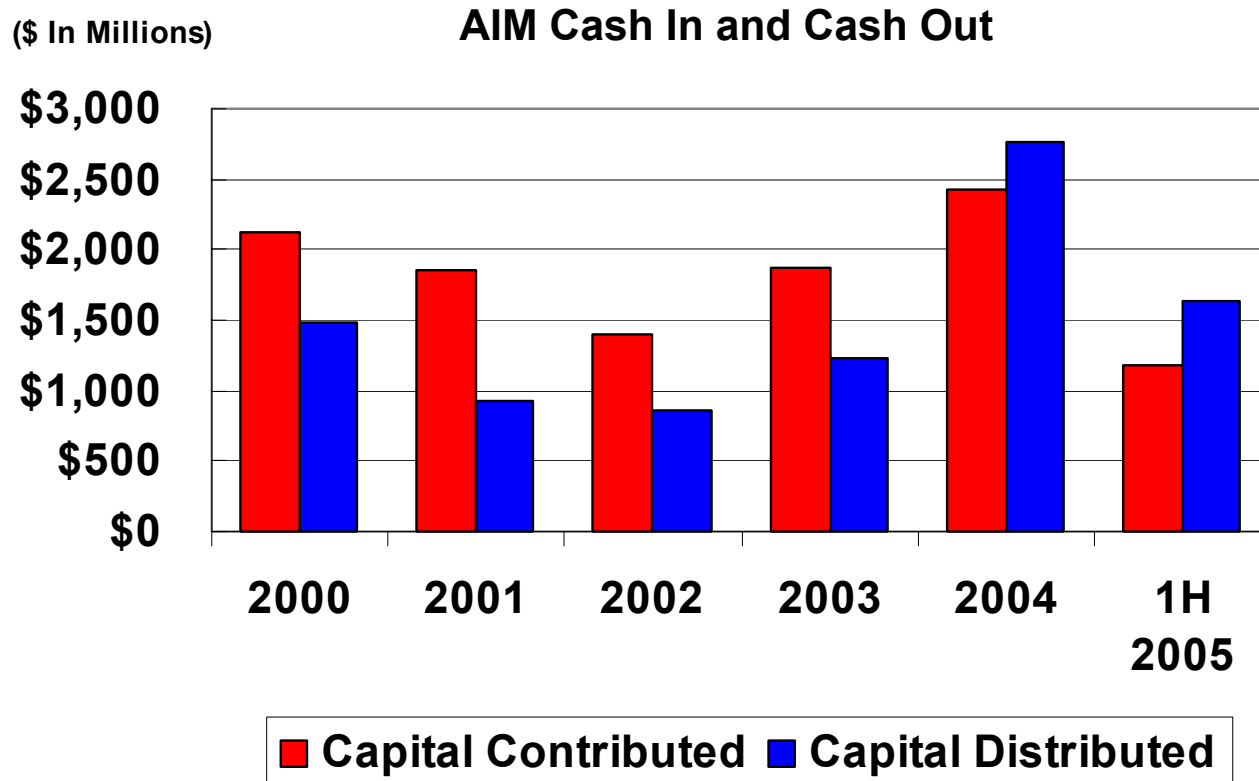
- Deploys capital in traditionally underserved markets primarily located in California
- Over 2100 new jobs created to date

- **Clean Technology Program**

- Formed in March 2004 to generate attractive long term investment returns while catalyzing the broad adoption of environmental technology
- CalPERS organized the pre eminent Clean Technology Conference in 2005

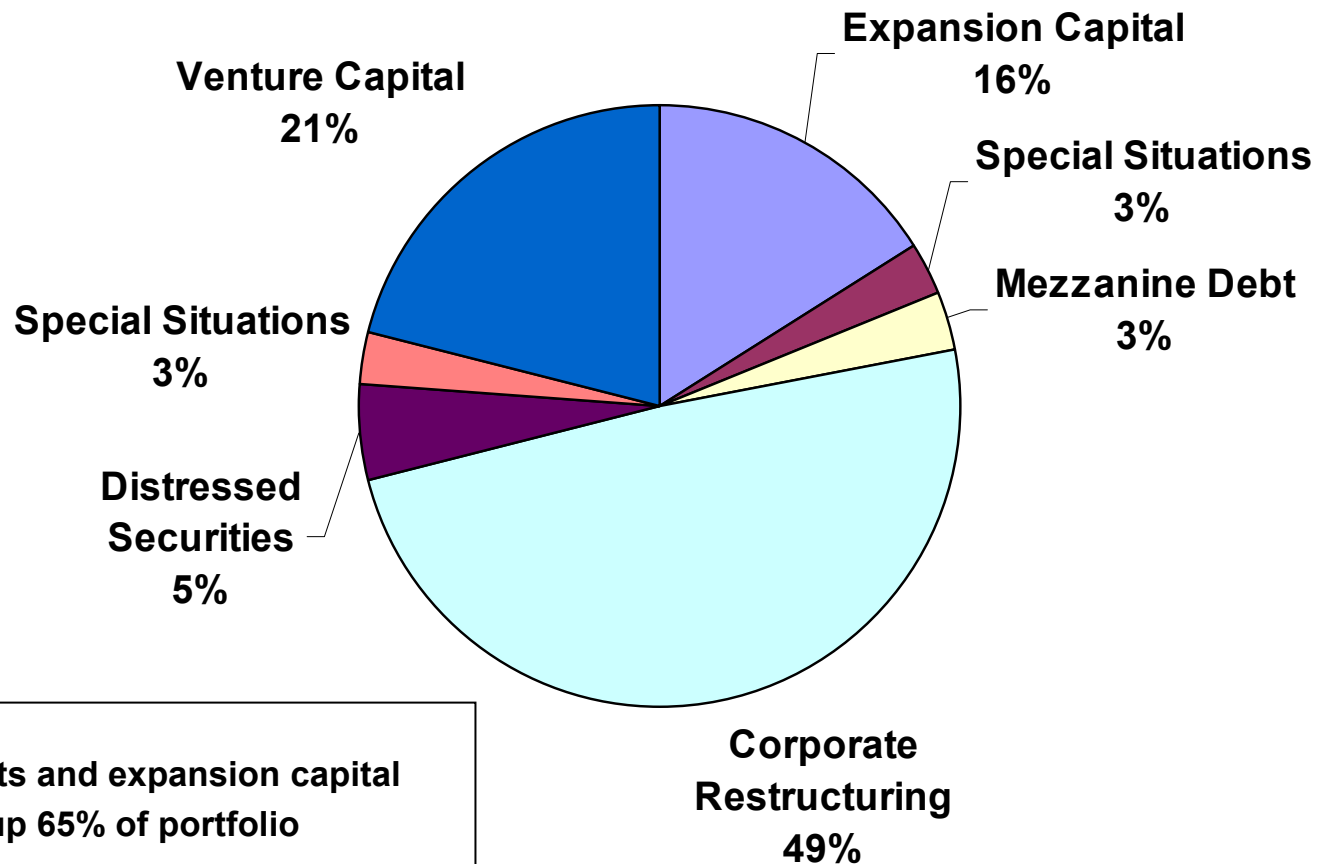
Contributions and Distributions

- AIM Program has been self funding for the last 18 months
 - More capital will need to be deployed to reach 6% target allocation level
 - Our partners are returning more cash and profits than they are taking down for new investments



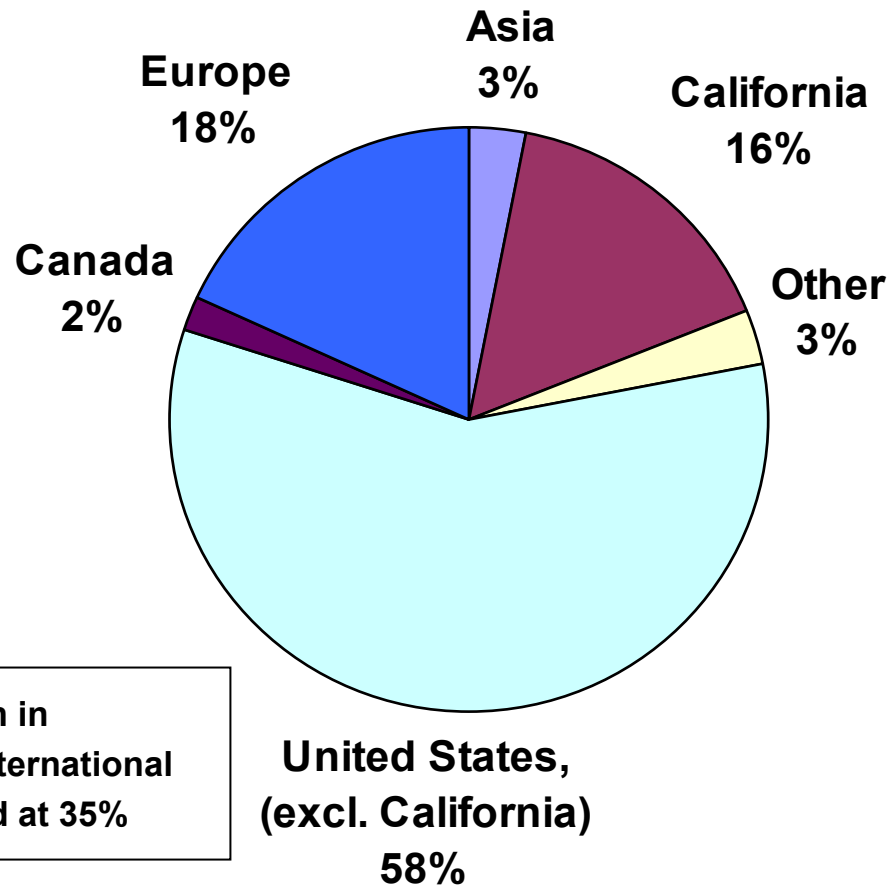
AIM Portfolio Diversification - Strategy

By Strategy – at 6/30/05
As a % of Active Commitments



AIM Portfolio Diversification - Geography

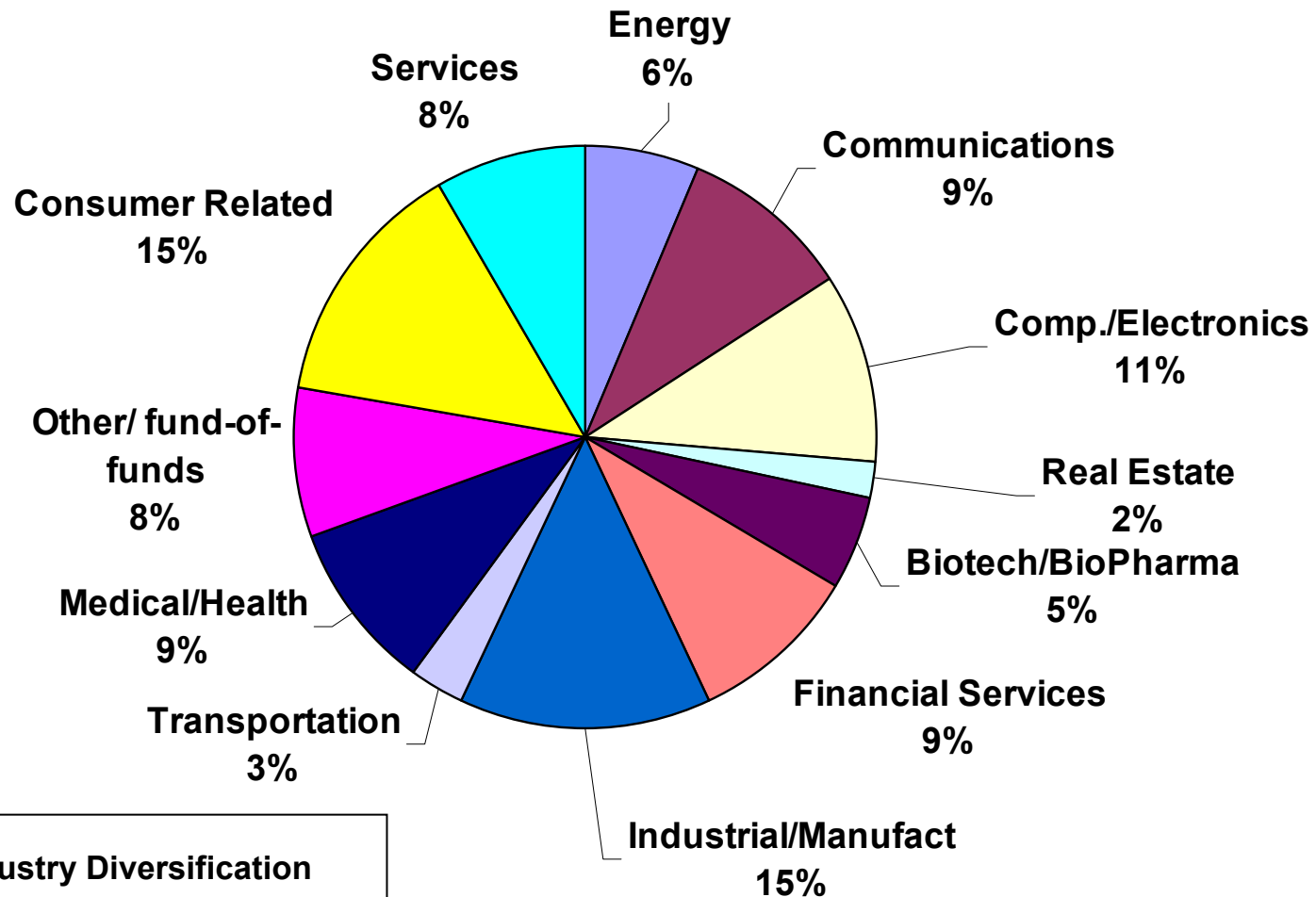
**By Geography – at 6/30/05
As Measured by Mkt. Value Exposure**



**Expect to see growth in
Europe and Asia: International
investments targeted at 35%**

AIM Portfolio Diversification - Industry

By Industry – at 6/30/05
As Measured by Mkt. Value Exposure





AIM 2004/2005 Key Accomplishments

- Portfolio performance exceeded benchmarks

– Net IRR on total program since inception:	11.5%
– Net IRR on fully realized investments:	19.1%
– Net IRR for 12 months ended June 30, 2005:	22.0%

- Approximately \$4.1 billion in distributions in 18 months through June 30, 2005
- Over \$7.2 billion of realized cash profits from inception through June 30, 2005

- Managed portfolio to maximize risk-adjusted returns

- Relationships with existing top quartile partners have been renewed
- International diversification with an increased focus on Europe and Asia

- Environmental technology program successfully launched

- Designed innovative structure and processes: a model for others to follow
- Executed a successful environmental technology conference
- Committed up to \$160 million to five “cleantech” private equity funds (as of 9/30/05)



AIM 2004/2005 Key Accomplishments

- Built upon CalPERS' strong reputation in private equity
 - Maintained continuity and cohesive investment team
 - Responsive discussion with General Partners on FOIA lawsuits
 - Held successful roundtable events with key partners to discuss domestic and global private equity issues
- Completed a Strategic Review of the AIM Program
 - Designed to enhance AIM's overall effectiveness, capabilities and long term performance
- Other Accomplishments
 - \$4.6 billion of new commitments made during the year ended June 30, 2005
 - Worked closely with others to introduce and facilitate passage of a legislative solution for disclosure of private equity information



AIM Current Challenges

- AIM has too many GP relationships
 - 135 GP relationships managed internally is stretching staff
 - Disproportionate amount of time spent on non-core relationships
- Access to top tier firms is shrinking
 - Buyout and venture capital funds are oversubscribed
 - CalPERS is fighting for every extra dollar of allocation
- Return expectations are decreasing
 - More capital and more auctions
 - Hedge funds and private equity overlapping
- Purchase prices are increasing
 - Abundant, cheap debt
 - Competition among well-capitalized private equity funds
 - Abundant investor capital



AIM 2005/2006 Priorities

- **Implement key findings of the 2005 Strategic Review**

- Increase size and scale of “core” relationships
- Reduce number of “non-core” relationships
- Leverage 3rd parties for the small to mid-size end of the market
- Transition to a more vertical organization structure
- Address longer term staffing needs
- Explore co-investment strategies
- Enhance delegated authority to expedite decision making
- Focus on proactive deal sourcing

☐ **Action plan to be presented at the December 2005 Investment Committee meeting**



AIM 2005/2006 Priorities

- Refresh AIM Spring Fed Pool of advisors (consultants)
 - RFP currently underway
- Expand on AIM's global footprint to enhance returns and geographic diversification
- Conduct focused roundtables with our key partners to garner knowledge and strengthen relationships
- Continue implementation of California Initiative Program
 - Prepare and present Program measurement report highlighting financial performance and non-financial impact of program
 - Monitor portfolio and consider additional opportunities as appropriate
- Continue implementation of Clean Technology Program



Key Take-Aways

- AIM is meeting its strategic objectives
- AIM portfolio delivered very good performance, benefiting from strong private equity market conditions
- Lower overall return expectations longer term
- Implementing the Strategic Review will be the highest priority of the AIM Program